

Report  
of the  
Examination of  
Greatway Insurance Company  
Sheboygan, Wisconsin  
As of December 31, 2004

## TABLE OF CONTENTS

	Page
I. INTRODUCTION .....	1
II. HISTORY AND PLAN OF OPERATION .....	3
III. MANAGEMENT AND CONTROL .....	5
IV. AFFILIATED COMPANIES .....	7
V. REINSURANCE .....	11
VI. FINANCIAL DATA .....	12
VII. SUMMARY OF EXAMINATION RESULTS .....	21
VIII. CONCLUSION.....	24
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	25
X. ACKNOWLEDGMENT .....	26



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Jim Doyle, Governor**  
**Jorge Gomez, Commissioner**

**Wisconsin.gov**

September 12, 2005

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53702

Commissioner Gomez:

In accordance with your instructions a compliance examination has been made of the  
affairs and financial condition of:

GREATWAY INSURANCE COMPANY  
Sheboygan, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Greatway Insurance Company (the company) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

#### **Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## **II. HISTORY AND PLAN OF OPERATION**

Greatway Insurance Company (hereinafter also Greatway or the company), a stock property and casualty company operating under ch. 611, Wis. Stat., was incorporated in the state of Wisconsin on August 3, 1987, and commenced business on August 29, 1987. Its entire initial capitalization was provided by its parent and sole stockholder, ACUITY, A Mutual Insurance Company, (hereinafter also ACUITY or the parent) in the form of 3,000 common shares (of 56,000 authorized) with a par value of \$1,000 per share. (In March 2001, the former Heritage Mutual Insurance Company changed its name to ACUITY, A Mutual Insurance Company.)

The company has no employees. Significant additional support, including personnel, office facilities, and general administrative services, are provided by the company's parent. All operations are conducted in accordance with the business practices and internal controls established by ACUITY. All expenses for shared arrangements are initially paid by the parent. Expenses other than taxes are then allocated on the basis of budget center utilization estimates and time studies. Tax allocations are established in accordance with a written agreement with ACUITY, which is described in the section of this report titled "Affiliated Companies." Intercompany balances with affiliates are created in the normal course of business, with settlements generally made on a monthly basis.

The company conducts its operations jointly with ACUITY through the latter's home office in Sheboygan, Wisconsin. ACUITY was examined concurrently with Greatway and the results of that examination were expressed in a separate report.

On June 1, 2000, Greatway ceased to accept any new business. During July and August of 2000, the company started to issue nonrenewal notices, subject to each of the various state's requirements in which they wrote the business. Due to the run-off the company currently has only a few open claims, and the company is available for sale.

When Greatway wrote business, it specialized in nonstandard automobile liability and physical damage coverage. The company ceded 100% of its business to Heritage Mutual Insurance Company (now ACUITY) through a quota share agreement, which is still in effect and is discussed in the section of this report titled "Reinsurance."

As of the examination date, the company continued to hold licenses in the following

15 states:

Arkansas	Iowa	Oregon
Colorado	Kentucky	South Dakota
Idaho	Nebraska	Tennessee
Illinois	North Dakota	Washington
Indiana	Ohio	Wisconsin

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of ten members, all of whom are also ACUITY's executive officers. All ten directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The members are compensated for their services as employees for ACUITY, as disclosed in the ACUITY examination, and receive no additional compensation as members of the Greatway Insurance Company board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Laura J. Cannestra Conklin Kohler, Wisconsin	Vice President of Business Consulting for ACUITY, A Mutual Insurance Company
Edward L. Felchner Sheboygan, Wisconsin	Vice President of Marketing and Personal Lines for ACUITY, A Mutual Insurance Company
James J. Loiacono Slinger, Wisconsin	Vice President of Claims for ACUITY, A Mutual Insurance Company
Sheri L. Murphy Port Washington, Wisconsin	Vice President of Services and Administration for ACUITY, A Mutual Insurance Company
Neal J. Ruffalo Sheboygan, Wisconsin	Vice President of Enterprise Technology for ACUITY, A Mutual Insurance Company
Benjamin M. Salzmann Kohler, Wisconsin	President and CEO of ACUITY, A Mutual Insurance Company
Wendy R. Schuler Manitowoc, Wisconsin	Vice President of Finance and Treasurer for ACUITY, A Mutual Insurance Company
John K. Singer Sheboygan, Wisconsin	Vice President of Human Resources for ACUITY, A Mutual Insurance Company
Patrick N. Tures Kohler, Wisconsin	Vice President of Actuarial and Strategic Information for ACUITY, A Mutual Insurance Company
Richard A. Waldhart Sheboygan, Wisconsin	Vice President of Sales and Communications for ACUITY, A Mutual Insurance Company
Edgar N. Warren Sheboygan Falls, Wisconsin	Vice President of Commercial Lines for ACUITY, A Mutual Insurance Company

**Officers of the Company**

Persons serving on the board of directors also act as the officers of the company serving at the time of this examination and are listed above. Although these individuals provide services to various other members of the holding company system, they are compensated only by the company's parent, ACUITY, A Mutual Insurance Company.

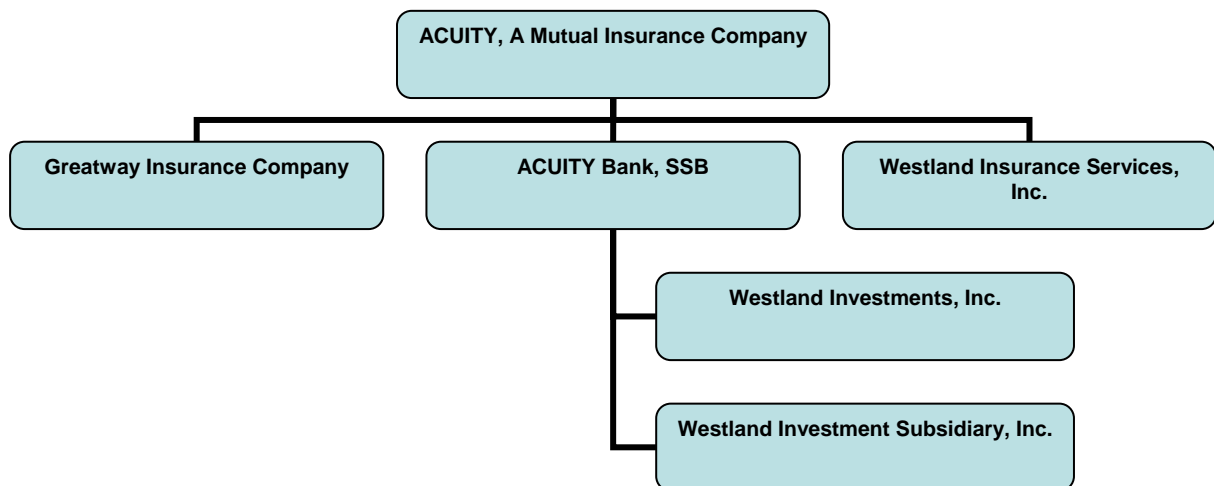
**Committees of the Board**

The company's bylaws permit, but do not require, the formation of committees by the board of directors. There are currently no board committees, nor have any been appointed during the period under examination.

#### IV. AFFILIATED COMPANIES

Greatway Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart  
As of December 31, 2004**



##### **ACUITY, A Mutual Insurance Company**

ACUITY, A Mutual Insurance Company, is a Wisconsin-domiciled mutual insurer incorporated on August 11, 1925, under the name of Mutual Automobile Insurance Company of the Town of Herman. Operations were initially restricted to Sheboygan County, Wisconsin, but the territory of the company was gradually extended. The name was changed in May 1954 to Mutual Auto Insurance Company. In December 1957 the company changed its name to Heritage Mutual Insurance Company. The present name was adopted in March 2001. ACUITY markets a broad range of personal and commercial insurance products. The 2004 annual statement reported net income of \$67,818,193, assets of \$1,280,764,695, liabilities of \$866,480,206, and policyholders' surplus of \$414,284,489.

## **Noninsurance Subsidiaries**

### **Westland Insurance Services, Inc.**

Westland Insurance Services, Inc., (hereinafter Westland Services) organized in December 1974, is an owner and operator of insurance agencies, with 16 offices in Wisconsin. Effective December 31, 1999, Heritage Financial Corporation was merged into Westland Insurance Services, Inc., the surviving corporation. On January 1, 2001, Heritage Computer Corporation was also merged into Westland Insurance Services, Inc., the surviving corporation. The December 31, 2004, unconsolidated financial statements report net income of \$629,050, assets of \$2,129,175, liabilities of \$859,396, and stockholder's equity of \$1,269,779.

### **ACUITY Bank, S.S.B**

ACUITY Bank, S.S.B, (hereinafter ACUITY Bank) is a Wisconsin-chartered savings bank headquartered in Tomah, Wisconsin, with seven offices in west central Wisconsin as well as one office located in ACUITY's corporate headquarters in Sheboygan. Effective March 15, 2001, the bank's name changed from Westland Savings Bank, S.A., to that presently used. ACUITY Bank was incorporated in January 1952. On January 31, 1991, ACUITY acquired all outstanding shares of the bank for \$5,492,408 in cash. The consolidated financial statements of ACUITY Bank include the accounts of its wholly owned subsidiaries, Westland Investments, Inc., and Westland Investments Subsidiary, Inc. As of December 31, 2004, the consolidated financial statements reported net income of \$550,441, assets of \$173,103,146, liabilities of \$156,856,298, and stockholder's equity of \$16,246,848.

### **Direct Subsidiaries of ACUITY Bank, S.S.B**

#### **Westland Investments, Inc.**

Westland Investments, Inc., (hereinafter WII) is a non-active subsidiary of ACUITY Bank. The December 31, 2004, equity in WII was \$15,000. This equity was included in the consolidated balance sheet of ACUITY Bank.

#### **Westland Investment Subsidiary, Inc.**

Westland Investment Subsidiary, Inc., (hereinafter WIS) is incorporated in the state of Nevada. It is an investment company that receives capital from ACUITY Bank and invests it

primarily in short-term bank qualified municipal and government obligations. The income generated from the investments then is, with certain limitations, exempt from any state income tax. The December 31, 2004, equity in WIS was \$23,594,591. This equity was included in the consolidated balance sheet of ACUITY Bank.

### **Agreements with Affiliates**

The company is a wholly owned subsidiary of ACUITY and is included in a holding company system. As noted earlier, the company has no employees of its own and therefore engages in services with its affiliates under various written agreements. An affiliated reinsurance agreement with its parent is described in the reinsurance section of this report. A brief summary of the other two agreements follows, with the arrangement in chronological order.

### **Service Agreement with ACUITY, A Mutual Insurance Company**

Effective September 15, 2001, Greatway entered into a service agreement whereby ACUITY is to provide certain services with respect to the business being run off by the company, including, but not limited to, underwriting, claims administration, accounting, general administrative and supervisory administrative services. This agreement automatically renews on the anniversary date. Any party may terminate this agreement through notification at least three months in advance of the annual anniversary date.

### **Tax-Sharing Agreement**

The company became party to a federal income tax-sharing agreement effective December 18, 2002, between ACUITY and its subsidiaries whereby the subsidiaries shall pay the parent for an amount not to exceed the amount of tax each of them would have paid had a tax return been filed on a separate return basis. Should any subsidiary incur a taxable loss, the company will reimburse in cash to the extent that there is a tax benefit arising from these losses in the consolidated return as deemed in a manner consistent with the allocation of taxes to profitable subsidiaries. Settlement between the parties is to occur within 45 days of the date on which the consolidated federal income tax return is filed. This agreement shall remain in effect for each year the taxable return is filed unless the agreement is amended, replaced, or terminated.

The annual holding company registration statement filed pursuant to s. Ins 40.03, Wis. Adm. Code, and dated May 16, 2005, identified the existence of the above agreements with affiliates. Examiners reviewed these agreements as part of their examination. For additional information, see Section VII under the heading "Corporate Records."

## **V. REINSURANCE**

The company's ceded reinsurance treaty with its parent, ACUITY, A Mutual Insurance Company, in force at the time of this examination is summarized as follows. The contract contained proper insolvency provisions. The contract provides for a ceding commission equal to Greatway's underwriting expenses, and all premiums and losses are ceded 100%, so Greatway reports net underwriting results of zero.

### **Affiliated Ceding Contracts**

1. Type: 100% Quota Share Reinsurance
- Reinsurer: ACUITY, A Mutual Insurance Company
- Scope: All business written and assumed by the reinsured
- Retention: None
- Coverage: 100% of all loss and loss adjustment expenses incurred by the reinsured
- Premium: 100% of all premiums written by the reinsured
- Commissions: The ceding commission is equal to the underwriting expenses incurred by the reinsured
- Effective date: January 1, 2004
- Termination: Any anniversary date upon 12 months' prior written notice by either party

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**Greatway Insurance Company**  
**Assets**  
**As of December 31, 2004**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 6,340,925	\$0	\$ 6,340,925
Cash	3,591,459	0	3,591,459
Short-term investments	1,750,067	0	1,750,067
Investment income due and accrued	73,392	0	73,392
Premiums and considerations:			
Deferred premiums, agents'			
balances, and installments booked			
but deferred and not yet due	(8,838)	0	(8,838)
Reinsurance:			
Amounts recoverable from reinsurers	2,754	0	2,754
Current federal and foreign income tax			
recoverable and interest thereon	<u>8,626</u>	<u>0</u>	<u>8,626</u>
Total Assets	<u>\$11,758,385</u>	<u>\$0</u>	<u>\$11,758,385</u>

**Greatway Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2004**

Other expenses (excluding taxes, licenses, and fees)	\$ 7,194
Taxes, licenses, and fees (excluding federal and foreign income taxes)	3,525
Net deferred tax liability	5,527
Amounts withheld or retained by company for account of others	42,028
Drafts outstanding	1,409
Payable to parent, subsidiaries, and affiliates	<u>43,135</u>
Total Liabilities	102,818
Common capital stock	\$3,000,000
Gross paid in and contributed surplus	2,000,000
Unassigned funds (surplus)	<u>6,655,567</u>
Surplus as Regards Policyholders	<u>11,655,567</u>
Total Liabilities and Surplus	<u>\$11,758,385</u>

**Greatway Insurance Company**  
**Summary of Operations**  
**For the Year 2004**

**Investment Income**

Net investment income earned	\$295,894	
Net realized capital gains or (losses)	<u>104,759</u>	
Net investment gain or (loss)		\$400,653

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	<u>101</u>	
Total other income		<u>101</u>

Net income (loss) before federal and foreign income taxes		400,754
Federal and foreign income taxes incurred		<u>105,870</u>

Net Income		<u><u>\$294,884</u></u>
------------	--	-------------------------

**Greatway Insurance Company**  
**Cash Flow**  
**For the Year 2004**

Premiums collected net of reinsurance		\$ 22,231
Net investment income		375,995
Miscellaneous income		<u>101</u>
Total		398,327
Benefit- and loss-related payments	\$ (68,267)	
Commissions, expenses paid, and aggregate write-ins for deductions	16,534	
Federal and foreign income taxes paid (recovered)	<u>105,033</u>	
Total deductions		<u>53,300</u>
Net cash from operations		345,027
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$16,034,642</u>	
Total investment proceeds	16,034,642	
Cost of investments acquired (long-term only):		
Bonds	<u>11,605,794</u>	
Total investments acquired	<u>11,605,794</u>	
Net cash from investments		4,428,848
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(65,938)</u>	
Net cash from financing and miscellaneous sources		<u>(65,938)</u>
<b>Reconciliation</b>		
Net change in cash and short-term investments		4,707,937
Cash and short-term investments, December 31, 2003		<u>633,589</u>
Cash and short-term investments, December 31, 2004		<u>\$5,341,526</u>

**Greatway Insurance Company**  
**Compulsory and Security Surplus Calculation**  
**December 31, 2004**

Assets	\$11,758,385
Less liabilities	<u>102,818</u>
Adjusted surplus	11,655,567
Compulsory surplus (subject to a minimum of \$2 million)	<u>2,000,000</u>
Compulsory surplus excess (or deficit)	<u>\$ 9,655,567</u>
Adjusted surplus (from above)	\$11,655,567
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)	<u>2,800,000</u>
Security surplus excess (or deficit)	<u>\$ 8,855,567</u>

**Greatway Insurance Company**  
**Reconciliation and Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2004**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	\$11,371,684	\$10,905,877	\$10,310,125	\$ 9,905,334	\$9,370,704
Net income	294,884	459,796	583,269	374,876	544,881
Change in net deferred income tax	(11,001)	5,150	5,756	(12,137)	0
Change in non-admitted assets	0	861	6,727	35,347	(10,251)
Cumulative effect of changes in accounting principles	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,705</u>	<u>0</u>
Surplus, end of year	<u>\$11,655,567</u>	<u>\$11,371,684</u>	<u>\$10,905,877</u>	<u>\$10,310,125</u>	<u>\$9,905,334</u>

**Greatway Insurance Company**  
**Insurance Regulatory Information System**  
**For the Five-Year Period Ending December 31, 2004**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed after the table.

	Ratio	2004	2003	2002	2001	2000
#1	Gross Premium to Surplus	0%	0%	0%	0%	90%
#2	Net Premium to Surplus	0	0	0	0	0
#3	Change in Net Writings	0	0	0	0	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	2.6*	2.7*	4.9	5.1	4.6
#7	Change in Surplus	2	4	6	4	6
#8	Liabilities to Liquid Assets	1	1	2	2	6
#9	Agents' Balances to Surplus	0	0	0	0	0
#10	One-Year Reserve Development to Surplus	0	0	0	0	0
#11	Two-Year Reserve Development to Surplus	0	0	0	0	0
#12	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

In 2003 and 2004 the investment yield ratios were exceptional. This ratio measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. Over this two-year period, the company's net investment gain steadily decreased resulting in a total decrease of 53.4% to \$400,653 over that period in spite of an increase in invested assets of 7.3%. The company's conservative investment approach, which includes a large number of tax exempt bond holdings with modest returns, and a declining interest rate environment caused investment yield to decrease over that period of time, and were the primary factors attributable towards the exceptional results.

#### **Growth of Greatway Insurance Company**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus As Regards Policyholders</b>	<b>Net Income</b>
2004	\$11,758,385	\$ 102,818	\$11,655,567	\$294,884
2003	11,551,341	179,657	11,371,684	459,796
2002	11,122,754	216,877	10,905,877	583,269
2001	10,561,140	251,015	10,310,125	374,876
2000	10,470,344	565,010	9,905,334	544,881
1999	10,699,327	1,328,623	9,370,704	605,152

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss And LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2004	\$ 0	\$0	\$0	0.0%	0.0%	0.0%
2003	0	0	0	0.0	0.0	0.0
2002	0	0	0	0.0	0.0	0.0
2001	(8,556)	0	0	0.0	0.0	0.0
2000	8,930,809	0	0	0.0	0.0	0.0
1999	14,834,680	0	0	0.0	0.0	0.0

As discussed in the "Reinsurance" section of this report, Greatway cedes 100% of its premiums and losses to ACUITY, A Mutual Insurance Company, and receives ceding commissions equal to its underwriting expenses. Therefore, Greatway cannot incur an underwriting profit or loss. As a result, Greatway's only source of income is through investments.

As discussed in the “History and Plan of Operations” section of the report, Greatway ceased to accept new business in June 2000 and began to run off its block of business. The sharp decrease in gross premiums written from 2000 to 2001 reflects the run-off of the company’s block of business.

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2004, is accepted.

**Examination Reclassifications**

	<b>Debit</b>	<b>Credit</b>
Common capital stock	\$2,997,000	\$
Gross paid in and contributed surplus		2,997,000

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company maintain up-to-date minutes as record of the board's direction of the company.

Action—Compliance

2. Management and Control—It is recommended that the company submit the amended and restated articles of incorporation and bylaws within 90 days from the adoption of this report, and any future proposed amendments, in compliance with ss. 611.12 (4) and 611.29 (4), Wis. Stat.

Action—Compliance

3. Management and Control—It is recommended that the company implement a procedure to ensure proper disclosures in the “General Interrogatories” section of future annual statements.

Action—Compliance

4. Corporate Records—It is again recommended that the company adopt an intercompany expense allocation and management agreement which discloses the terms among participants for allocating expenses and for settling balances, pursuant to s. 611.61, Wis. Stat.

Action—Compliance

5. Corporate Records—It is recommended that the company submit this revised agreement within 90 days from the adoption of this report and any future proposed agreements at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

Action—Partial compliance, see comments in the summary of current examination results.

## **Summary of Current Examination Results**

### **Corporate Records**

The prior examination noted that the company failed to adopt an intercompany expense allocation and management agreement with its parent. It was further recommended that any amendments to that agreement or any future proposed agreements be filed with the commissioner in accordance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code. All affiliated agreements were reviewed and compared to both the most current holding company filing with the commissioner as well as documents noting non-disapproval of the affiliated agreements filed with the commissioner. It was discovered that all affiliated agreements have been filed with the commissioner for non-disapproval except for the Tax-Sharing Agreement that was amended December 18, 2002. The company could not provide evidence of filing this agreement with the commissioner. Therefore, the company is not entirely in compliance with the prior examination recommendation in regards to filing their affiliated agreements. It is again recommended that the company submit all current agreements, or any amendment thereof, within 90 days from the adoption of this report and any future proposed agreements at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

### **Common Capital Stock**

**\$3,000**

The original balance of \$3,000,000 represents the company's common capital stock balance reported on its annual statement. According to the company's articles of incorporation, it has 56,000 authorized shares of common stock with a par value of \$1.00 per share. The NAIC Annual Statement Instructions-Property and Casualty states that a company's common capital stock balance reported on its balance sheet is to be calculated by multiplying the number of issued shares by their par value. Any consideration paid in excess of the par value of issued stock is to be reported as gross paid-in capital on the issuing company's financial statements. The original balance reported by the company reflects the purchase of 3,000 shares of Greatway's 56,000 authorized shares of capital common stock by ACUITY at a \$1,000 per share. However, the company's balance sheet should properly reflect the authorized issued capital common stocks at par value or its articles should be amended to reflect the capital structure reported on its annual

statement. A reclassification of \$2,997,000 has been reflected in Section V of this report under the heading, "Examination Reclassifications" due to this finding. It is recommended that the company properly record its capital common stock balance in accordance with the NAIC Annual Statement Instructions-Property and Casualty, or amend its articles to restate the par value of common stock.

**Gross Paid In and Contributed Surplus**

**\$4,997,000**

The above balance was increased from \$2,000,000 to \$4,997,000 as a result of the reclassification described above under the heading, "Common Capital Stock."

## **VIII. CONCLUSION**

Policyholders' surplus has increased from \$9,370,704 as of year-end 1999 to \$11,655,567 as of year-end 2004. This represents an increase of 24% during the period under examination and is mostly attributable to investment gains, Greatway's only source of income, which adequately covers their expenses.

Greatway stopped accepting new business in June 2000 and in July of that year began to nonrenew existing business. The company has no direct employees and has never incurred any net underwriting expenses due to a 100% quota share reinsurance agreement with ACUITY which allocates a ceding commission equal to Greatway's incurred underwriting expenses. A majority of the allocated expenses Greatway incurs relates to various administrative services and management services ACUITY provides to run off its business.

The examination of Greatway Insurance Company resulted in two recommendations, one of which was a repeat recommendation, no adjustment to surplus and one reclassification. The recommendations pertain to statutory reporting requirements relating to the filing of affiliated agreements and the proper reporting of the company's capital common stock balance on its annual statement, which resulted in the only reclassification.

## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

1. Page 22 - Corporate Records—It is again recommended that the company submit all current agreements, or any amendment thereof, within 90 days from the adoption of this report and any future proposed agreements at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.
2. Page 23 - Common Capital Stock—It is recommended that the company properly record its capital common stock balance in accordance with the NAIC Annual Statement Instructions-Property and Casualty, or amend its articles to restate the par value of common stock.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Jerry C. DeArmond	Insurance Financial Examiner Advanced Loss Reserve Specialist
Stephen L. Elmer	Insurance Financial Examiner
Randy F. Milquet	Insurance Financial Examiner Advanced Data Processing Audit Specialist and Reinsurance Specialist
Angelita M. Romaker	Insurance Financial Examiner
Frederick H. Thornton	Insurance Financial Examiner Advanced Exam Planning and Quality Control Specialist
Carina V. Toselli	Insurance Financial Examiner

Respectfully submitted,

John Litweiler  
Examiner-in-Charge